# NIGERIA TRUST FUND

## FINANCIAL MANAGEMENT

### NTF Resources

The Nigeria Trust Fund (NTF) is a special fund administered by the Bank. The Fund's resources primarily consist of subscriptions by the Federal Republic of Nigeria. The NTF was established in 1976, for an initial period of thirty (30) years, when an agreement establishing the NTF was executed between the Bank and the Federal Republic of Nigeria, with a provision for extension by mutual agreement. After two annual extensions in 2006 and 2007, the operation of the NTF was extended for ten years with effect from 26 April 2008, following a positive evaluation of its performance during the initial thirty (30) years of operation. Following the approval of the Federal Government of Nigeria, the Agreement was extended for an additional period of five years starting from 25 April 2018.

### Loan Products

NTF provides financing in the form of loans to the least developed and low-income regional member countries at concessionary rates in order to enhance economic development and social progress in Africa. In the past the NTF has provided concessional financing exclusively to public sector operations. However, for the extension period to 2018, the Fund's mandate has been expanded to cover financial support to private sector operations as well, including the microfinance subsector.

### Investments

The cash and treasury investments of the NTF, all denominated in US Dollars, amounted to UA 103.20 million at 31 December 2019 compared to UA 107.72 million at the end of 2018. Investment income for 2019 was UA 2.82 million, representing a return of 2.64 percent, on an average liquidity level of UA 106.80 million, compared to an income of UA 2.25 million representing a return of 2.05 percent on an average liquidity of UA 109.55 million in 2018. The portfolio outperformed its benchmark in 2019 by 27 basis points.

### Loan Portfolio

Cumulative loans signed, net of cancellations, as at 31 December 2019 amounted to UA 353.12 million. This represents an increase of UA 17.29 million over the balance at 31 December 2018 which stood at UA 335.83. Loan approvals during 2019 amounted to UA 4.00 million. This represents a decrease of UA 9.30 million compared to approvals in 2018 which stood at UA 13.30 million. Table 1.7 below presents the evolution of loans approved, loans and the undisbursed balances from 2015 to 2019. As at 31 December 2019 there were 36 active loans with an outstanding amount of UA 76.16 million and 54 fully repaid loans amounting to UA 176.57 million.

#### *Disbursements*

Disbursements increased from UA 10.97 million in 2018 to UA 12.39 million in 2019. As at 31 December 2019, cumulative disbursements amounted to UA 290.37 million (2018: UA 278.03). A total of 72 loans amounting to UA 245.80 million were fully disbursed as at 31 December 2019, representing 84.65 percent of cumulative disbursements on that date. Figure 1.4 shows the evolution of loan disbursements and repayments over the past five years.

#### *Repayments*

Principal loan repayments amounted to UA 4.00 million in 2019 compared to UA 3.07 million in 2018, representing an increase of 30.29 percent over the previous year. Cumulative repayments as of December 2019 stood at UA 204.95 million.

### Risk Management Policies and Processes

The NTF, like the Bank, seeks to reduce its exposure to risks that are not essential to its core business of providing development related assistance, such as liquidity, currency and interest rate risks. The Fund follows stringent risk management procedures in managing these risks. Note D to the Financial Statements of the Fund provides the details of the risk management policies and practices employed by NTF.

## Table 1.7
## Lending Status, 2015–2019
(UA millions)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Loans Approved | 12.50 | 18.46 | - | 13.30 | 4.00 |
| Disbursements | 7.47 | 10.98 | 7.41 | 10.97 | 12.34 |
| Undisbursed Balances | 71.79 | 60.81 | 68.77 | 57.80 | 62.75 |

## FINANCIAL RESULTS

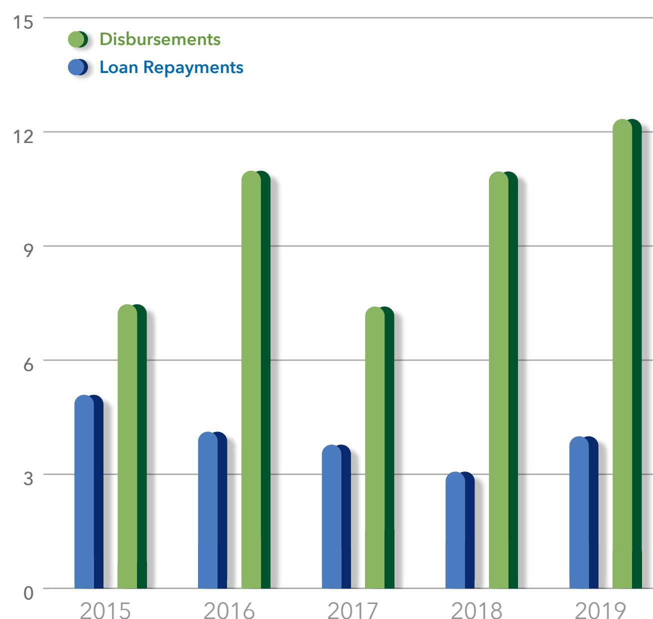
The NTF's revenue for 2019 was UA 4.10 million representing an increase of 16.47 percent from UA 3.52 million earned in 2018, mainly due to an increase in income from loans and investments.

NTF's income before distributions approved by the Board of Governors increased by UA 0.24 million from UA 2.66 million in 2018 to UA 2.90 million in 2019.

Administrative expenses representing the NTF's share of the total shareable expenses of the ADB Group, increased by UA 0.12 million from UA 0.70 million in 2018 to UA 0.82 million in 2019. As noted earlier, the NTF's share of the total shareable expenses of the ADB Group is based on a predetermined cost-sharing formula, which is driven by the relative level of certain operational volume indicators and relative balance sheet-size. However, the NTF's share of total administrative expenses is capped at no more than 20 percent of its gross income in any year.

The NTF's reserves net of cumulative currency translation adjustments increased by 7.93 percent from UA 46.04 million at the end of 2018 to UA 49.69 million as at 31 December 2019.

**Figure 1.4 Loan Disbursements and Repayments, 2015-2019**
(UA millions)



# Nigeria Trust Fund

## Financial Statements
## For the Year ended December 31, 2019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# Balance sheet
# As at 31 December 2019

(UA thousands – Note B)

| ASSETS | 2019 | 2018 |
|---|---|---|
| DUE FROM BANKS | 2,439 | 5,728 |
| INVESTMENTS (Note F) | 100,760 | 101,994 |
| ACCOUNTS RECEIVABLE | | |
| Accrued income and receivables on loans | 1,010 | 809 |
| Accrued income on investments | 252 | 318 |
| Other receivables | 210 | 1,133 |
| | 1,472 | 2,260 |
| LOANS (Notes D & G) | | |
| Disbursed and outstanding | 74,798 | 66,230 |
| **TOTAL ASSETS** | **179,469** | **176,212** |

*The accompanying notes to the financial statements form part of this statement.*

| LIABILITIES & EQUITY | | |
|---|---|---|
| ACCOUNTS PAYABLE | 1,189 | 1,584 |
| EQUITY (Note H) | | |
| Capital | 128,586 | 128,586 |
| Reserves | | |
| Retained earnings | 148,403 | 145,768 |
| Cumulative Currency Translation Adjustment (Note B) | (98,709) | (99,726) |
| Total reserves | 49,694 | 46,042 |
| Total Equity | 178,280 | 174,628 |
| **TOTAL LIABILITIES & EQUITY** | **179,469** | **176,212** |

*The accompanying notes to the financial statements form part of this statement.*

## Income statement
## for the year ended 31 December 2019

(UA thousands – Note B)

| | 2019 | 2018 |
|---|---|---|
| INCOME (Note I) | | |
| Income from loans | 1,287 | 1,261 |
| Income from investments | 2,816 | 2,254 |
| Total income | 4,103 | 3,515 |
| | | |
| EXPENSES | | |
| Administrative expenses (Note J) | 821 | 703 |
| Bank charges and sundry losses | 18 | 88 |
| Total expenses | 839 | 791 |
| | | |
| Provision for impairment on loan principal and charges (Note G) | 363 | 62 |
| Total expenses and provision for impairment | 1,202 | 853 |
| | | |
| Income before distributions approved by the Board of Governors | 2,901 | 2,662 |
| Distributions of income approved by the Board of Governors (Note H) | (266) | (218) |
| | | |
| **NET INCOME FOR THE YEAR** | **2,635** | **2,444** |

*The accompanying notes to the financial statements form part of this statement.*

## Statement of comprehensive income
## for the year ended 31 December 2019

(UA thousands – Note B)

| | 2019 | 2018 |
|---|---|---|
| NET INCOME FOR THE YEAR | 2,635 | 2,444 |
| Other comprehensive income | - | - |
| | | |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **2,635** | **2,444** |

*The accompanying notes to the financial statements form part of this statement.*

## Statement of change in equity
## for the year ended 31 December 2019

(UA thousands – Note B)

| | Capital | Retained Earnings | Cumulative Currency Translation Adjustment | Total Equity |
|---|---|---|---|---|
| **BALANCE AT JANUARY 1, 2018** | **128,586** | **144,200** | **(103,735)** | **169,051** |
| | | | | |
| Effects of change in accounting policy (IFRS 9) | - | (876) | - | (876) |
| Net income for the year | - | 2,444 | - | 2,444 |
| Currency translation adjustment | - | - | 4,009 | 4,009 |
| **BALANCE AT DECEMBER 31, 2018** | **128,586** | **145,768** | **(99,726)** | **174,628** |
| **BALANCE AT DECEMBER 31, 2018 AND JANUARY 1, 2019** | **128,586** | **145,768** | **(99,726)** | **174,628** |
| | | | | |
| Net income for the year | - | 2,635 | - | 2,635 |
| Currency translation adjustment | - | - | 1,017 | 1,017 |
| | | | | |
| **BALANCE AS AT DECEMBER 31, 2019** | **128,586** | **148,403** | **(98,709)** | **178,280** |

*The accompanying notes to the financial statements form part of this statement.*

## Statement of cash flows
## For the year ended 31 December 2019

(UA thousands – Note B)

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM:** | | |
| | | |
| **OPERATING ACTIVITIES:** | | |
| Net income | 2,635 | 2,444 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for impairment on loan principal and charges | 363 | 62 |
| Unrealized gains on investments | (79) | (129) |
| Changes in accrued income and receivables on loans | (201) | (288) |
| Changes in net current assets | 447 | 424 |
| Net cash from in operating activities | 3,165 | 2,513 |
| | | |
| **INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:** | | |
| Disbursements on loans | (12,398) | (10,965) |
| Repayment of loans | 4,004 | 3,067 |
| Investments maturing after 3 months of acquisition: | | |
| Held at fair value through profit or loss | 5,642 | 737 |
| Net cash used in investing, lending and development activities | (2,752) | (7,161) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | 627 | 2,519 |
| | | |
| Net (decrease)/increase in cash and cash equivalents | 1,040 | (2,129) |
| Cash and cash equivalents at the beginning of the year | 10,072 | 12,201 |
| **Cash and cash equivalents at the end of the year** | **11,112** | **10,072** |
| | | |
| **COMPOSED OF:** | | |
| Investments maturing within 3 months of acquisition | 8,673 | 4,344 |
| Cash | 2,439 | 5,728 |
| **Cash and cash equivalents at the end of the year** | **11,112** | **10,072** |
| | | |
| **SUPPLEMENTARY DISCLOSURE** | | |
| 1. Operational cash flows from interest | | |
| Interest received | 1,086 | 1,486 |
| 2. Movement resulting from exchange rate fluctuations on loans | 536 | 1,464 |

*The accompanying notes to the financial statements form part of this statement.*

# Notes to the financial statements for the year ended 31 December, 2019

## Note A – Nature of Operations

The Nigeria Trust Fund (the Fund or NTF) was established under an agreement signed on February 26, 1976 (the Agreement) between the African Development Bank (ADB or the Bank) and the Federal Republic of Nigeria. The ADB, headquartered in Abidjan, Côte d'Ivoire, manages the resources of the Fund on behalf of the Government of Nigeria. The purpose of the Fund is to assist in the development efforts of the poorer ADB Regional Member Countries. The Agreement stipulates that the Fund shall be in effect for 30 years from the date the Agreement became effective and that such sunset date may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria. The Agreement expired on April 26, 2006 and was extended twice for one-year periods, to allow for the completion of an independent review of the operations of the Fund. Following the successful completion of the independent review, the Agreement was extended for ten years starting from April 26, 2008.

Following the approval of the Federal Government of Nigeria, the Agreement was extended for an additional period of 5 years starting from April 25, 2018.

## Note B – Summary of Significant Accounting Policies

The financial statements of the Fund are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention except for certain financial assets that are carried at fair value.

The significant accounting policies employed by the Fund are summarized below:

### Revenue Recognition

Interest income is accrued and recognized based on the effective interest rate for the time such an instrument is outstanding and held by the Fund. The effective interest rate is the rate that discounts the estimated future cash flows through the expected life of the financial asset to the asset's net carrying amount. Commitment fees are accrued for unutilized loan facilities.

Income from investments includes realized and unrealized gains and losses on financial instruments measured at fair value through profit or loss.

### Functional and Presentation Currencies

The Fund conducts its operations in United States Dollars; and has determined that its functional currency is the United States Dollars (USD). In accordance with Article VII, section 7.3, of the Agreement establishing the Fund, the financial statements are presented in Units of Account (UA).

The value of the Unit of Account is defined in Article 5.1 (b) of the Agreement Establishing the Bank as equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF) or any unit adopted for the same purpose by the IMF.

As at 31 December 2019, 1 UA was equivalent to 1.382830 United States dollars (2018: 1.390790 USD).

### Currency Translation

Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated from USD to UA at rates prevailing at the balance sheet date. Translation differences are included in reserves under cumulative currency translation adjustment (CCTA). Changes in CCTA are reported in the statement of changes in equity. Capital replenishments are recorded in UA at the exchange rates prevailing at the time of receipt. Translation gains and losses on the conversion of currencies into UA are included in the determination of net income.

### Financial Instruments

Financial assets and financial liabilities are recognized when the Fund assumes related contractual rights or obligations. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred, substantially all risks and rewards of ownership.

### 1) Financial Assets

In accordance with IFRS 9, the Fund classifies its financial assets into the following categories: financial assets at amortized cost; and financial assets at fair value through profit or loss (FVTPL). These classifications are determined based on the Fund's business model. In accordance with the Fund's business model, financial assets are held either for the stabilization of income through the management of net interest margin or for liquidity management. Management determines the classification of its financial assets at initial recognition.

#### *i) Financial Assets at Amortized Cost*

A financial asset is classified as 'amortized cost' only if the asset meets the objective of the Fund's business model to hold the asset to collect the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in financial assets are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

If either of the two criteria above is not met, the financial asset is classified at fair value through profit or loss.

Financial assets at amortized cost include amounts due from banks, loans and receivables on amounts advanced to borrowers and certain investments that meet the criteria of financial assets at amortized cost. Loans and receivables comprise demand obligations, accrued income and receivables from loans and investments and other sundry amounts receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are carried at amortized cost using the effective interest method.

Loan origination fees are deferred and recognized over the life of the related loan as an adjustment of yield. Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered insignificant.

Cash and cash equivalents include amounts due from banks, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash, these are subject to an insignificant risk of changes in value and have a time to maturity upon acquisition of three months or less.

#### *ii) Financial Assets at Fair Value through Profit or Loss (FVTPL)*

Financial assets that do not meet the amortized cost criteria as described above are measured at FVTPL. This category includes all treasury assets held for resale to realize short-term fair value changes. Gains and losses on these financial assets are reported in the income statement in the period in which they arise. Derivatives are also categorized as financial assets at fair value through profit or loss.

Purchases and sales of financial assets are recognized on a trade-date basis, which is the date the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrower.

### 2) Financial Liabilities

Financial liabilities include accounts payable and are subsequently measured at amortized cost. Financial liabilities are derecognized upon discharge, cancellation or expiration.

## Impairment of Financial Assets

The Fund applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets: Debt instruments measured at amortized cost, Loan commitments, Financial guarantee contracts and Treasury investments held at amortized cost.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

#### *Stage 1: 12-months ECL*

The Fund assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, the Fund recognizes as a provision on the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months. Interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

#### *Stage 2: Lifetime ECL – not credit impaired*

The Fund assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Fund recognizes as a provision a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset). Interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

### *Stage 3: Lifetime ECL – credit impaired*

The Fund identifies ECLs on those exposures that are assessed as credit impaired based on whether one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized as specific provision, and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

## Determining the stage for impairment

At each reporting date, the Fund assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The Fund considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Fund's investment grade criteria, or which are less than 90 days past due, are considered to have a low credit risk.

The provision for these exposures is based on a 12-months ECL. When an asset is uncollectible, it is written-off against the related provision. Such assets are written-off after all the necessary procedures are completed and the amount of the loss determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The Fund assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped based on shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, the geographical location of the borrower and other relevant factors.

## Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

*Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive.

*Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

*Undrawn loan commitments:* As the present value of the difference between the contractual cash flows, that are due to the Fund if the commitment is drawn-down and the cash flows that the Fund expects to receive.

*Financial guarantee contracts:* As the expected payments to reimburse the holder less any amounts that, the Fund expects to recover.

For further details on how the Fund calculates ECLs including the use of forward looking information, refer to the Credit quality of financial assets section under Risk Management in Note D.

## Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## Fair Value Disclosure

In liquid or active markets, the most reliable indicators of fair value are quoted market prices. A financial instrument is regarded as quoted in an active market if quoted prices are regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market might be inactive include when there is a wide bid-offer spread or a significant increase in the bid-offer spread or there are few or no recent transactions observed in the market. When markets become illiquid or less active, market quotations may not represent the prices at which orderly transactions would take place between willing buyers and sellers and therefore may require an adjustment in the valuation process. Consequently, in an inactive market, price quotations are not necessarily determinative of fair values.

Considerable judgment is required to distinguish between active and inactive markets.

The fair values of quoted investments in active markets are based on current bid prices, while those of liabilities are based on current asking prices. For financial instruments with inactive markets or unlisted securities, the Fund establishes fair value by using valuation techniques that incorporate the maximum use of market data inputs. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Financial instruments for which market quotations are not readily available have been valued using methodologies and assumptions that necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not readily determinable. Management believes that these methodologies and assumptions are reasonable; however, the values actually realized in a sale might be different from the fair values disclosed.

The following three hierarchical levels are used for the determination of fair value:

*Level 1:* Quoted prices in active markets for the same instrument (i.e. without modification or repackaging).

*Level 2:* Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

*Level 3:* Valuation techniques for which any significant input is not based on observable market data.

The methods and assumptions used by the Fund in estimating the fair values of financial instruments are as follows:

*Cash and cash equivalents:* The carrying amount approximates the fair value.

*Investments:* Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

*Loans:* The Fund does not sell its loans, nor does it believe there is a comparable market for its loans. The fair value of loans reported in these financial statements represents management's best estimates of the expected cash flows of its loans. The fair valuation of loans has been determined using a discounted cash flow model based on year-end market lending rates in USD, including impairment percentages when applicable.

## Retained Earnings

Retained earnings of the Fund consist of amounts allocated to reserves from prior years' income and unallocated current year net income.

## Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the preparation of financial statements in conformity with IFRS, management makes certain estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent liabilities. Actual results could differ from such estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most significant judgments and estimates are summarized below:

### i) Impairment of Financial Assets

The measurement of impairment losses under IFRS 9 across all qualifying categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Fund's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Fund's internal credit grading model, which assigns PDs to the individual grades
- The Fund's criteria for assessing if there has been a significant increase in credit risk necessitating the loss allowance to be measured on a 12 month or lifetime ECL basis and the applicable qualitative assessment
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

### ii) Fair Values of Financial Instruments

The fair value of financial instruments that are not quoted in active markets is measured by using valuation techniques. Where valuation techniques (for example, models) are used to measure fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are periodically calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### Events after the reporting period

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date.

Events that are indicative of conditions that arose after the balance sheet date, but do not result in an adjustment of the financial statements themselves, are disclosed.

### COVID-19

The World Health Organization declared the outbreak of COVID-19—a pneumonia-like disease affecting people worldwide—a global pandemic on 11th March 2020. Currently, there are relatively few cases in Africa, the primary area of the Fund's business operations. However, due to its likely negative impact on commodity prices, financial markets, projected GDP growth, etc., this outbreak is expected to affect the global economy and markets.

As of 31st December 2019, the outbreak had no direct effect on the financial position of the Fund. However, because of its potential impact on the estimation of Expected Credit Losses (ECL) and the volatility of the fair value of certain financial assets and liabilities, the outbreak may affect the Fund's 2020 financial results. For now, it is not easy to determine the effect of the outbreak on the Bank's 2020 operations and financial results. The Fund continues to monitor the impact of the pandemic on its operations and financial results while ensuring the well-being and safety of its customers and other stakeholders.

## Note C –The Effect of New and Revised International Financial Reporting Standards

### IFRS 16: Leases

On 13 January 2016, the IASB published IFRS 16 "Leases", which replaces the current guidance on lease accounting in IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The new standard requires far-reaching changes in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for short-term leases and leases of low-value assets. However, this exemption can only be applied by lessees.

The new standard does not affect the Fund.

## Note D – Risk Management Policies and Procedures

As described in Note A, the Bank manages the resources of the Fund on behalf of the Government of Nigeria. In the course of exercising its fiduciary duties, the Bank applies specific risk management policies designed to protect the resources of the Fund through the Bank's General Authority on Asset and Liability Management ("the ALM Authority"). The ALM Authority sets out the guiding principles for managing the Fund's risks, including interest rate risk, currency risk, liquidity risk, counter-party credit risk and operational risk.

Under the ALM Authority, the President of the Bank is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO). ALCO is the Bank's most senior management forum on finance and financial risk management issues and is chaired by the Vice President for Finance of the Bank.

The ALCO meets regularly to perform its oversight role. Among its functions, the ALCO reviews regular and ad-hoc finance and treasury risk management reports and projections and approves strategies to adjust the balance sheet. ALCO is supported by several standing working groups that report on specific issues including interest rate risk, currency risk and financial projections.

In late 2013, a Group Chief Risk Officer position was created reporting directly to the President of the Bank.

Day-to-day operational responsibilities for implementing the Bank's risk management policies and guidelines are delegated to the relevant business units, and the Financial Management Department is responsible for monitoring the day-to-day compliance with those policies and guidelines.

The following sections describe in detail the manner in which the individual sources of risk are managed by the Fund.

## Credit Risk

Credit risk is the potential financial loss due to the default of one or more debtors/obligors. Credit risk is the largest source of risk for the Fund arising from its lending and treasury operations essentially and it includes sovereign credit risk from lending operations,and counterparty credit risk.

### 1) Sovereign Credit Risk

When the Fund lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. Also, in extending credit to sovereign entities, it is exposed to country risk which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Fund. Country credit risk is managed through financial policies and lending strategies, including individual country exposure limits and overall creditworthiness assessment. These include the assessment of each country's macroeconomic performance as well as its socio-political conditions and future growth prospects.

#### *Country Exposure in Borrowing Member Countries*

The Fund's outstanding loans at 31 December 2019 were to the following countries:

(UA thousands)

| Country | N° of loans | Total Loans* | Unsigned Loans | Undisbursed Balance | Outstanding Balances | % of Total Outstanding Loans |
|---|---|---|---|---|---|---|
| Benin | 3 | 8,441 | - | 2,110 | 6,331 | 8.31 |
| Cabo Verde** | 1 | - | - | - | - | - |
| Cameroon | 1 | 5,016 | - | 3,206 | 1,810 | 2.38 |
| Cote D'Ivoire | 1 | 4,001 | - | 3,825 | 176 | 0.23 |
| Eswatini | 1 | 2,752 | - | - | 2,752 | 3.61 |
| Gambia | 3 | 7,850 | - | - | 7,850 | 10.31 |
| Ghana | 1 | 872 | - | - | 872 | 1.14 |
| Guinea | 1 | 1,556 | - | - | 1,556 | 2.04 |
| Guinea-Bissau | 1 | 293 | - | - | 293 | 0.39 |
| Liberia | 2 | 13,609 | - | 8,037 | 5,572 | 7.32 |
| Madagascar | 1 | 6,537 | - | 1,000 | 5,537 | 7.27 |
| Malawi | 3 | 15,806 | - | 4,829 | 10,976 | 14.41 |
| Mali | 2 | 9,314 | - | 7,223 | 2,091 | 2.75 |
| Mauritania | 3 | 11,013 | - | 6,000 | 5,013 | 6.58 |
| Namibia | 1 | 77 | - | - | 77 | 0.10 |
| Niger | 1 | 7,397 | - | 6,923 | 475 | 0.62 |
| Rwanda | 2 | 9,485 | - | 5,427 | 4,058 | 5.33 |
| Senegal** | 1 | - | - | - | - | - |
| Sierra Leone | 2 | 7,397 | - | 4,423 | 2,974 | 3.90 |
| Somalia*** | 1 | 841 | - | - | 841 | 1.11 |
| Togo | 2 | 10,522 | - | 6,512 | 4,010 | 5.27 |
| Uganda | 1 | 9,725 | - | 1,160 | 8,564 | 11.24 |
| Zambia | 1 | 6,413 | - | 2,076 | 4,337 | 5.69 |
| **Total** | **36** | **138,915** | **-** | **62,751** | **76,164** | **100.00** |

** Excludes fully repaid loans and canceled loans.*
*** Outstanding loans balance value is less than UA 100, at the current exchange rate.*
**** Country with overdue amounts of more than six months as at 31 December 2019*
*Slight differences may occur in totals due to rounding.*

### *Systematic Credit Risk Assessment*

As at 31 December 2019, all the Fund's loans were made only to public sector borrowers, and such loans generally carry full sovereign guarantee or the equivalent from the borrowing member state.

The Fund's credit risk management framework is based on a systematic credit risk assessment using a uniform internal credit risk rating scale that is calibrated to reflect the Fund's statistical loss expectations as shown in the table below.

| | | International Ratings | | |
|---|---|---|---|---|
| **Risk Class** | **Revised Rating Scale** | **S&P – Fitch** | **Moody's** | **Assessment** |
| Very Low Risk | 1+ | A+ and above | A1 and above | Excellent |
| | 1 | A | A2 | |
| | 1- | A- | A3 | |
| | 2+ | BBB+ | Baa1 | Strong |
| | 2 | BBB | Baa2 | |
| | 2- | BBB- | Baa3 | |
| Low Risk | 3+ | BB+ | Ba1 | Good |
| | 3 | BB | Ba2 | |
| | 3- | BB- | Ba3 | |
| Moderate Risk | 4+ | B+ | B1 | Satisfactory |
| | 4 | B | B2 | |
| | 4- | | | |
| | 5+ | B- | B3 | Acceptable |
| | 5 | | | |
| High Risk | 5- | CCC+ | Caa1 | Marginal |
| | 6+ | | | |
| | 6 | CCC | Caa2 | Special Attention |
| | 6- | | | |
| Very High Risk | 7 | CCC- | Caa3 | Substandard |
| | 8 | | | |
| | 9 | CC | Ca | Doubtful |
| | 10 | C | C | Loss |

These sovereign risk credit ratings are derived from a risk assessment on five risk indices that include macro-economic performance, debt sustainability, socio-political factors, business environment and portfolio performance. These five risk indices are combined to derive a composite sovereign country risk index and then converted into separate country risk ratings. These country risk ratings are validated against the average country risk ratings from accredited rating agencies and other specialized international bodies. The Credit Risk Committee reviews the country ratings on a quarterly basis to ensure compliance with country exposure limits, changes in country credit risk conditions, and to approve changes in loss provisioning, if any.

### *Portfolio Risk Monitoring*

It is the Fund's policy that if the payment of principal, interest or other charges becomes 30 days overdue, no new loans to that country, or to any public sector borrower in that country, will be presented to the Board of Directors for approval, nor will any previously approved loans be signed,until all arrears are cleared. Furthermore, for such countries, disbursements on all loans to or guaranteed by that borrower country are suspended until all overdue amounts have been paid.

## 2) Counterparty Credit Risk

Counterparty credit risk is the potential for loss due to the failure of a counterparty to honor its obligation. Various financial instruments are used to manage the Fund's exposure to fluctuations in market interest and currency rates, and to invest its liquid resources prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty to the transaction may be unable to meet its obligation to the Fund.

Given the nature of the Fund's business, it is not possible to completely eliminate counterparty credit risk, however, this risk is minimized by executing transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures. Counterparties for treasury assets must meet the Fund's minimum credit rating requirements and are approved by the Bank's Vice President for Finance. For counterparties that are rated below the minimum rating requirements, approval by ALCO is required.

The following table details the minimum credit ratings for authorized investment counterparties:

| | Maturity | | | | | |
|---|---|---|---|---|---|---|
| | 6 months | 1 year | 5 years | 10 years | 15 years | 30 years |
| Government | | A/A2 | | | AA-/Aa3 | AAA/Aaa |
| Government agencies and supranationals | | A/A2 | | | AA-/Aa3 | AAA/Aaa |
| Banks | A/A2 | | AA-/Aa3 | AAA/Aaa | | |
| Corporations including non-bank financial institutions | A/A2 | | AA-/Aa3 | AAA/Aaa | | |
| MBS/ABS | AAA<br>Maximum legal maturity of 50 years for ABS/MBS with the underlying collateral originated in the UK and 40 year maximum legal maturity for all other eligible ABS/MBS. Also, the maximum weighted average life for all ABS/MBS at the time of acquisition shall not exceed 5 years. | | | | | |

The Fund invests in money market mutual funds with a minimum rating of AA-/Aa3.

In addition to these minimum rating requirements, the Fund operates within a framework of exposure limits based on the counterparty credit rating and size, subject to a maximum of 10 percent of the Fund's total liquidity for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and regularly monitored against the Fund's credit limits after considering the benefits of any collateral.

As shown in the following table, the estimated potential counterparty credit exposure of the portfolio continues to be predominantly in the AA- or higher-rated class.

| | Credit Risk Profile of the Investment and Derivative Portfolios | | |
|---|---|---|---|
| | AAA | AA+ to AA- | A+ and lower |
| 2019 | 39% | 53% | 8% |
| 2018 | 34% | 54% | 13% |
| 2017 | 71% | 29% | - |
| 2016 | 66% | 23% | 11% |
| 2015 | 19% | 68% | 13% |

## Expected Credit risk

### *Definition of default*

The definition of default for determining ECLs considers indicators that the debtor is unlikely to pay and it is past due for more than 180 days for sovereign counterparties on any material credit obligation to the Fund. The Fund rebuts the IFRS 9's 90 days past due rebuttable presumption in the Fund's sovereign loan portfolio because the Sanction policy of the Fund defines a non-accrual loan or non-performing as a loan that is at least 180 days past due. This is also current practice with other Multilateral Development Banks. The recovery rate for loans that are less than 180 days past due is much larger than loans that are at least 180 days past due loans, which demonstrates a more lagging effect.

The Fund considers that the obligor is unlikely to pay its credit obligations to the Fund without recourse by the Fund to actions such as realizing security.

### *Credit Risk Grades*

The Fund allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of the respective exposures involves the use of the following:

- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.
- Data from credit reference agencies, press articles, changes in external credit ratings
- Modifications of financial assets and financial liabilities

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in the Fund's accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

If the terms of a financial asset are modified, the Fund considers whether the cash flows arising from the modified asset are substantially different. If substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this instance, a new financial asset is recognized at fair value while the original financial asset is derecognized.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recognizes a modification gain/loss in the statement of profit/loss as the difference between the gross carrying amount prior to the modification and the gross carrying amount.

### Measurement and recognition of expected credit losses (ECL)

ECLs are calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), discounted at the original EIR.

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Fund estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by property, loan-to-value ratio (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios, for lending, to reflect possible changes in relevant prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Fund derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Fund measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Fund considers a longer period. The maximum contractual period extends to the date at which the Fund has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where the modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type,
- Credit risk grading,
- Collateral type,
- Date of initial recognition,
- Remaining term to maturity,
- Industry,
- Geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the Fund has limited historical data, external benchmark information is used to supplement the data available internally.

## Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Fund considers both quantitative and qualitative information and analysis based on the Fund's historical experience and expert credit risk assessment, including forward looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Fund presumes that the credit risk on its sovereign and non-sovereign loan has increased significantly since initial recognition when contractual payments are more than 180 days past due for sovereign loans and more than 90 days past due for non-sovereign loans. The reason for rebutting the IFRS rebuttable presumption is explained in the definition of default above.

Despite the foregoing, the Fund assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Fund considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

For financial guarantee contracts, the date that the Fund becomes a party to the irrevocable commitment is considered the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Fund considers the changes in the risk that the specified debtor will default on the contract.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying a significant increase in credit risk before the amount becomes past due.

## Incorporation of forward-looking information

The Fund has established an expert panel that considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. The expert panel consists of senior executives from risk, finance and economics functions. Relevant regional and industry specific adjustments are applied to capture variations from general industry scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, unemployment rates, interest rates, gross domestic product, inflations, and commodity prices and these require an evaluation of both the current and forecast direction of the macro-economic cycle.

Incorporating forward-looking information increases the degree of judgment required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

## Calculation of expected credit losses

The Fund calculates ECLs based on three probability-weighted scenarios. The three scenarios are base case, optimistic and pessimistic. Each of these is associated with different PDs, EADs and LGDs parameters.

These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking customer and macro-economic data. For accounting purposes, the 12-month and lifetime PD represent the expected point-in-time probability of default over the next 12 months and the remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk. The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.

The 12-month ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of the monthly PDs over the full remaining life multiplied by LGD and EAD.

The Fund will continue to assess and update the parameters used in the ECL model on an ongoing basis to reflect its loss and recovery experiences and changes in the macroeconomic variables.

### Expected Credit Losses

IFRS 9 requires the recognition of 12 month expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit- impaired (stage 3).

### Impairment of Financial Instruments by stage

The table below presents gross exposure of loans at amortized cost within the scope of IFRS 9 and the applicable impairment allowance based on stage allocation as at 31 December 2019 and 31 December 2018.

## As at 31 December 2019

(UA thousands)

| | Gross exposure/Impairment allowance | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Sovereign loans (Gross) | 70,986 | 4,337 | 841 | 76,164 |
| Total loans at amortized cost | 70,986 | 4,337 | 841 | 76,164 |
| Less: Impairment allowance | (929) | (298) | (139) | (1,366) |
| **Total net exposure December 31, 2019** | **70,057** | **4,039** | **702** | **74,798** |

## As at 31 December 2018

(UA thousands)

| | Gross exposure/Impairment allowance | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Sovereign loans (Gross) | 66,417 | - | 837 | 67,254 |
| Total loans at amortized cost | 66,417 | - | 837 | 67,254 |
| Less: Impairment allowance | (886) | - | (138) | (1,024) |
| **Total net exposure December 31, 2018** | **65,531** | | **699** | **66,230** |

### Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. To mitigate liquidity risk, the Fund's investment management policy ensures it has sufficient liquid assets to meet its disbursement obligations.

## Currency Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. The Fund manages its currency risk by holding all of its investments and loans in U.S. dollars, the currency in which the Fund's resources are denominated. The Fund is not exposed to significant currency risk.

## Interest Rate Risk

The Fund is exposed to fair value interest rate risk on its portfolio of loans and investments. All of the Fund's loans have fixed interest rates. Investments are managed against the monthly average of three-months LIBOR in order to manage the available resources prudently. Re-pricing risk is not considered significant in comparison to the Fund's equity resources, and is accordingly not hedged.

As at 31 December 2019, the Fund had UA 62.75 million of loans which were committed but not yet disbursed (2018: UA 57.80 million). The interest rate on these undisbursed loans has been fixed at between 2 to 4 percent per annum.

## Interest Rate Risk Position as at December 31, 2019

(UA thousands)

| | 1 year or less | More than 1 year but less than 2 years | More than 2 years but less than 3 years | More than 3 years but less than 4 years | More than 4 years but less than 5 years | More than 5 years | Non-interest bearing funds | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash | 2,439 | - | - | - | - | - | - | 2,439 |
| Investments | 25,890 | 46,630 | 21,690 | 6,510 | - | 40 | - | 100,760 |
| Accounts receivable | 1,472 | - | - | - | - | - | - | 1,472 |
| Loans | 5,152 | 4,694 | 4,739 | 5,136 | 5,228 | 51,215 | (1,366) | 74,798 |
| | 34,953 | 51,324 | 26,429 | 11,646 | 5,228 | 51,255 | (1,366) | 179,469 |
| **Liabilities** | | | | | | | | |
| Accounts payable | (1,189) | - | - | - | - | - | - | (1,189) |
| **Interest rate risk position as at December 31, 2019*** | **33,764** | **51,324** | **26,429** | **11,646** | **5,228** | **51,255** | **(1,366)** | **178,280** |

** Interest rate risk position represents equity.*

## Interest Rate Risk Position as at December 31, 2018

(UA thousands)

| | 1 year or less | More than 1 year but less than 2 years | More than 2 years but less than 3 years | More than 3 years but less than 4 years | More than 4 years but less than 5 years | More than 5 years | Non-interest bearing funds | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash | 5,728 | - | - | - | - | - | - | 5,728 |
| Investments | 43,054 | 29,540 | 23,030 | - | 6,330 | 40 | - | 101,994 |
| Accounts receivable | 2,260 | - | - | - | - | - | - | 2,260 |
| Loans | 4,630 | 4,170 | 4,340 | 4,350 | 4,560 | 45,204 | (1,024) | 66,230 |
| | 55,672 | 33,710 | 27,370 | 4,350 | 10,890 | 45,244 | (1,024) | 176,212 |
| **Liabilities** | | | | | | | | |
| Accounts payable | (1,584) | - | - | - | - | - | - | (1,584) |
| **Interest rate risk position as at December 31, 2018*** | **54,088** | **33,710** | **27,370** | **4,350** | **10,890** | **45,244** | **(1,024)** | **174,628** |

** Interest rate risk position represents equity.*

### Currency and Interest Rate Sensitivity Analysis

The Fund holds all of its investments and loans in U.S. dollars and therefore is exposed only to translation adjustment as the Fund's assets are reported in UA for financial statements purposes.

Movements in interest rates have an impact on the reported fair value of the trading portfolio. The table below shows the effect of a parallel yield curve movement +/- 1bps as at 31 December 2019 and 2018, respectively.

(UA thousands)

| | +1Basis Points | | -1Basis Points | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| (Loss)/Gain on investments measured at fair value | (570) | (336) | 578 | 336 |

## Note E – Financial Assets And Liabilities

The tables below set out the classification of each class of financial assets and liabilities, and their respective fair values:

### Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

| | Financial Assets and Liabilities through Profit or Loss | | | | |
|---|---|---|---|---|---|
| December 31, 2019 | Mandatorily at Fair value | Designated at Fair Value | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
| Due from banks | - | - | 2,439 | 2,439 | 2,439 |
| Treasury investments | 100,760 | - | - | 100,760 | 100,760 |
| Accounts receivable | - | - | 1,472 | 1,472 | 1,472 |
| Loans (net) | - | - | 74,798 | 74,798 | 74,798 |
| **Total financial assets** | **100,760** | **-** | **78,709** | **179,469** | **179,469** |
| | | | | | |
| Liabilities | - | - | 1,189 | 1,189 | 1,189 |
| **Total financial liabilities** | **-** | **-** | **1,189** | **1,189** | **1,189** |

(UA thousands)

| | Financial Assets and Liabilities through Profit or Loss | | | | |
|---|---|---|---|---|---|
| December 31, 2018 | Mandatorily at Fair value | Designated at Fair Value | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
| Due from banks | - | - | 5,728 | 5,728 | 5,728 |
| Treasury investments | 101,994 | - | - | 101,994 | 101,994 |
| Accounts receivable | - | - | 2,260 | 2,260 | 2,260 |
| Loans (net) | - | - | 66,230 | 66,230 | 66,230 |
| **Total financial assets** | **101,994** | **-** | **74,218** | **176,212** | **176,212** |
| | | | | | |
| Liabilities | - | - | 1,584 | 1,584 | 1,584 |
| **Total financial liabilities** | **-** | **-** | **1,584** | **1,584** | **1,584** |

## Note F – Investments

As part of its portfolio management strategy, the Fund invests in government and agency obligations, time deposits, and asset-backed securities.

For government and agency obligations with final maturities longer than 1 year, the Fund may only invest in obligations with counterparties having a minimum credit rating of AA- issued or unconditionally guaranteed by governments of member countries of the Bank or other official entities. For asset-backed securities, the Fund may only invest in securities with an AAA credit rating. Investments in money market instruments are restricted to instruments having maturities of not more than one year and a minimum rating of A.

As at 31 December, 2019 all investments are held at fair value through profit and loss.

The Fund's investments at 31 December 2019 and 2018 (at FVTPL) are summarized below:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| Time deposits | 8,673 | 4,344 |
| Asset-backed securities | 40 | 40 |
| Government and agency obligations | 78,300 | 91,280 |
| Corporate bonds | 13,747 | 6,330 |
| **Total** | **100,760** | **101,994** |

The table below classifies the Fund's investments as at 31 December 2019 and 2018 into three levels reflecting the relative reliability of the measurement bases, with level 1 as the most reliable.

| | Quoted prices in active markets for the same instrument | | Valuation techniques for which all significant inputs are based on observable market data | | Valuation techniques for which any significant input is not based on observable market data | | | |
|---|---|---|---|---|---|---|---|---|
| | (Level 1) | | (Level 2) | | (Level 3) | | Total | |
| (UA thousands) | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Time deposits | 8,673 | 4,344 | - | - | - | - | 8,673 | 4,344 |
| Asset-backed securities | - | - | - | - | 40 | 40 | 40 | 40 |
| Government and agency obligations | 78,300 | 91,280 | - | - | - | - | 78,300 | 91,280 |
| Corporate bonds | - | - | 13,747 | 6,330 | - | - | 13,747 | 6,330 |
| **Total** | **86,973** | **95,624** | **13,747** | **6,330** | **40** | **40** | **100,760** | **101,994** |

Fair value measurement of financial instruments using valuation technique with no significant input from observable market data (level 3 hierarchy) at 31 December, 2019 and 2018 are made up as follows:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| Balance at January 1 | 40 | 50 |
| Losses recognized in income statement | - | (1) |
| Purchases, issues and settlements (net) | - | (10) |
| Currency translation adjustments | - | 1 |
| **Balance at December 31** | **40** | **40** |

The contractual maturity structure of the Fund's investments as at 31 December, 2019 and 2018 was as follows:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| One year or less | 25,890 | 43,054 |
| More than one year but less than two years | 46,630 | 29,540 |
| More than two years but less than three years | 21,690 | 23,030 |
| More than three years but less than four years | 6,510 | 6,330 |
| More than four years but less than five years | - | - |
| More than five years | 40 | 40 |
| **Total** | **100,760** | **101,994** |

The notional value of investments as at 31 December, 2019 was UA 100.76 million (2018: UA 101.99 million), while the average year-to-date yield was 2.56% (2018: 2.05%).

## Note G – Loans

Loans originated prior to September 22, 2003; carry an interest rate of four percent (4%) on the outstanding balance. With effect from September 22, 2003, pursuant to the Board of Governors' resolution B/BG/2003/11 of June 3, 2003 and the protocol agreement between the Government of Nigeria and the Bank, dated September 22, 2003, the interest rate on loans was changed from a flat 4 percent per annum to a range of 2 percent to 4 percent (inclusive) per annum on the outstanding balance and future undisbursed loans. Furthermore, a 0.75 percent commission is payable on undisbursed balances commencing 120 days after the signature of the loan. Loans approved prior to the extension of the Agreement are granted for a maximum period of twenty-five years including grace periods of up to five years.

Following the extension of the Agreement in April 2008, the terms of the NTF loans were further modified in line with the terms of financing in the operational guidelines of the Fund, approved pursuant to the Board of Directors' resolution ADB/BD/WP/2008/196 of December 2, 2008 which stipulates that the resources of the Fund will henceforth be deployed in accordance with the following three options:

Financial terms for the first option include: (i) no interest charges on NTF loans; (ii) a service charge of 0.75 percent per annum on outstanding balances; (iii) a commitment fee of 0.5 percent per annum on undisbursed commitments; and (iv) a 20-year repayment period with a 7-year grace period.

Financial terms for the second option include: (i) no interest charges on NTF loans; (ii) a service charge of 0.75 percent per annum on outstanding balances; (iii) a commitment fee of 0.5 percent per annum on undisbursed commitments; and (iv) a 15-year repayment period with a 5-year grace period.

Financial terms for the third option would be the same terms as for the ADB private sector financing, taking into consideration the risk analysis of the project.

For all the above-mentioned options, the grace period starts from the date of signing of the financing agreement or at a date agreed amongst co-financiers, in the case of co-financed projects.

For private sector operations, a commitment fee of 0.75 percent per annum on undisbursed balances will be charged from 120 days after the signing of the loan agreement.

The NTF shall provide financing to suit the needs of its borrowers.

### Loan Ceilings

In order to promote broader coverage of the NTF resources, utilization will be subject to a ceiling for each operation. For both public and private sector operations, a ceiling of USD 10 million per project will apply. Project proposals of more than USD 10 million may be considered if there is strong justification. This will be subject to review as appropriate depending on the recommendations of the mid-term reviews of the NTF.

The Fund's loan regulations require that loans be expressed in UA and repaid in the currency disbursed. At December 31, 2019, all loans disbursed were repayable in United States Dollars.

The contractual maturity structure of outstanding loans as at December 31, 2019 and 2018 was as follows:

(Amounts in UA millions)

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Periods | Amount | % | Amount | % |
| One year or less | 5.15 | 6.76 | 4.63 | 7.43 |
| More than one year but less than two years | 4.69 | 6.16 | 4.17 | 5.78 |
| More than two years but less than three years | 4.74 | 6.22 | 4.34 | 6.37 |
| More than three years but less than four years | 5.14 | 6.75 | 4.35 | 6.70 |
| More than four years but less than five years | 5.23 | 6.87 | 4.56 | 6.55 |
| More than five years | 51.21 | 67.24 | 45.20 | 67.17 |
| **Total** | **76.16** | **100.00** | **67.25** | **100.00** |

The weighted-average interest yield on outstanding loans for the year ended December 31, 2019 was 1.77% (2018: 2.07%). Borrowers may prepay loans, subject to the terms specified in the loan agreement.

## Provision for Impairment on Loan Principal and Charges Receivable

As at 31 December 2019, loans made to or guaranteed by certain borrowing countries with an aggregate principal balance of UA 0.85 million, of which UA 0.85 million was overdue, were considered to be impaired.

The gross amounts of impaired loans and charges receivable and their corresponding impairment provisions at December 31, 2019 and 2018 was as follows:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| Outstanding balance on impaired loans | 841 | 837 |
| Less: accumulated provision for impairment | (139) | (138) |
| **Net balance on impaired loans** | **702** | **699** |
| | | |
| Charges receivable and accrued income on impaired loans | 1,242 | 1,219 |
| Less: accumulated provision for impairment | (664) | (643) |
| **Net charges receivable and accrued income on impaired loans** | **578** | **576** |

An analysis of changes in ECL allowances in relation to the Fund's financial assets carried at amortized cost for the year ended 31 December, 2019 was as follows:

(UA thousands)

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Balances at January 1, 2019 | 903.21 | - | 781.02 | 1,684.23 |
| Increase in provision during the year | 42.43 | 299.56 | 21.40 | 363.39 |
| **Total impairment as at 31 December 2019** | **945.64** | **299.56** | **802.42** | **2,047.62** |

## Fair Value of Loans

As at 31 December 2019 and 2018, the fair value of loans measured at amortized cost are deemed to approximate their net carrying value following the adoption of the expected credit loss impairment model.

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| | Carrying/Fair Value | Carrying/Fair Valuee |
| Loan balance at December 31 | 76,164 | 67,254 |
| Accumulated provision for impairment on loans | (1,366) | (1,024) |
| **Net balance** | **74,798** | **66,230** |

## Note H – Equity

Equity is composed of Fund capital, reserves & retained earnings, and cumulative currency translation adjustments. These are further detailed as follows:

### Fund Capital

The initial capital of the Fund was Naira 50 million which was payable in two equal installments of Naira 25 million each, in freely convertible currencies. The first installment, equivalent to USD 39.90 million, was received by the Bank on July 14, 1976, and the second installment, equivalent to USD 39.61 million, was received on February 1, 1977.

During May 1981, the Federal Republic of Nigeria announced the replenishment of the Fund with Naira 50 million. The first installment of Naira 35 million, equivalent to USD 52.29 million, was received on October 7, 1981. The second installment of Naira 8 million, equivalent to USD 10.87 million, was received on May 4, 1984. The third installment of Naira 7 million, equivalent to USD 7.38 million, was received on September 13, 1985.

Following a request by the Government of Nigeria, on June 14, 2006, a withdrawal of USD 200 million (UA 135.71 million) was made by the Government of Nigeria from the resources of the Fund.

A second request for a withdrawal of USD 200 million (UA 129.04 million) was paid to the Government of Nigeria in July 2009.

During the year ended December 31, 2014, the Government of the Federal Republic of Nigeria authorized the withdrawal of an amount of USD 13 million (UA 8.41 million) from reserves to settle its commitment on the arrears clearance of debt owed by Liberia under the internationally coordinated arrears clearance mechanism for Post-Conflict Countries.

During the year ended December 31, 2015, following a request by the Government of Nigeria, on May 13, 2015, a withdrawal of USD 10 million (UA 7.14 million) was made from the resources of the Fund and paid to the Government of Nigeria.

### Reserves including Retained Earnings

#### *Retained Earnings*

Retained earnings as at 31 December 2019 and 2018 was as follows:

(UA thousands)

| | |
|---|---|
| Balance at January 1, 2018 | 144,200 |
| Effects of change in accounting policies (IFRS 9) | (876) |
| Net income for the year | 2,444 |
| **Balance at December 31, 2018** | **145,768** |
| | |
| **Balance at December 31, 2018 and January 1, 2019** | **145,768** |
| | |
| Net income for the year | 2,635 |
| **Balance at December 31, 2019** | **148,403** |

The Board of Governors of the Bank approves the transfers of part of the Fund's annual income for the year to HIPC (Heavily Indebted Poor Countries). Transfers approved by the Board of Governors of the Bank are reported within the income statement as expenses in the year the transfer is approved. Prior to 2006, Board of Governors' approved transfer was reported as a reduction in retained earnings.

### *Cumulative Currency Translation Adjustments*

Cumulative currency translation adjustments as at December 2019 and 2018 was as follows:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| Balance at January 1 | 99,726 | 103,735 |
| Movements during the year | (1,017) | (4,009) |
| **Balance at December 31, 2019** | **98,709** | **99,726** |

## Note I – Income

### Interest and Charges on Loans

Interest and charges on loans for the year ended 31 December 2019 and 2018 was as follows:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| Interest income on loans not impaired | 955 | 907 |
| Interest income on impaired loans | 34 | 33 |
| Commitment charges | 298 | 321 |
| **Total** | **1,287** | **1,261** |

### Income from Investments

Income from investments for the year ended 31 December 2019 and 2018 was as follows:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| Interest income | 2,695 | 2,407 |
| Realized and unrealized fair value gains/(losses) | 121 | (153) |
| **Total** | **2,816** | **2,254** |

## Note J – Administrative Expenses

According to the Agreement establishing NTF, the Fund shall pay to the Bank the expenses incurred in the management of the Fund as follows:

a) Separately identifiable costs incurred by the Bank for the Fund; and

b) Indirect costs incurred by the Bank in the management of the Fund.

However, the annual payment for the aforementioned expenses incurred by the Bank shall not exceed 20 percent of the Fund's gross income during each period. The administrative cost-sharing formula may be reviewed from time-to-time by mutual agreement.The amount of UA 0.82 million charged for the period ended December 31, 2019 (2018: UA 0.70 million) represents the Fund's share of the Bank Group expenses.

## Note K – Related Parties

The Nigeria Trust Fund is administered by the African Development Bank. The ADB conducts the general operations of the NTF on the basis of the terms of the Agreement and in consultation with the Government of Nigeria. The NTF utilizes the offices, staff, organization, services and facilities of the Bank and reimburses the Bank for its share of the costs of such facilities, based on an agreed-upon cost-sharing formula (see Note J). The amount outstanding as at 31 December 2019 in respect of the Fund's share of administrative expenses was UA 0.16 million (2018: UA 0.10 million) and is included in Accounts Payable on the balance sheet.

## Note L – Segment Reporting

The objective of the Fund is to provide loan funds to the poorer ADB regional member countries for development purposes. The Fund's products and services are similar and are structured and distributed in a fairly uniform manner across borrowers. Management has concluded that the Fund has only one reportable segment in accordance with IFRS 8.

The main products and services from which the Fund derives its revenue are mainly loans to ADB regional member countries and treasury investments.

External revenue for the years ended 31 December 2019 and 2018 is detailed as follows:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| Interest income and charges on loans with sovereign guarantee | 1,287 | 1,261 |
| Treasury investment income | 2,816 | 2,254 |
| **Total external revenue** | **4,103** | **3,515** |

The Fund's development activities are divided into five sub-regions of the continent of Africa for internal management purposes, namely: Central Africa, East Africa, North Africa, Southern Africa, and West Africa. Treasury investment activities are carried out mainly outside of the continent of Africa and are therefore not included in the table below. In presenting information on the basis of the above geographical areas, revenue is based on the location of customers. The Fund uses ADB's offices, staff, organization, services and facilities and therefore has no fixed assets of its own.

Geographical information about income from loans for the year ended 31 December 2019 and 2018 is detailed as follows:

(UA thousands)

| | Central Africa | Eastern Africa | Northern Africa | Southern Africa | Western Africa | Multi-national | Total |
|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | |
| Income from Loans | 28 | 281 | 124 | 258 | 563 | 33 | 1,287 |
| **2018** | | | | | | | |
| Income from Loans | 26 | 254 | 115 | 253 | 580 | 33 | 1,261 |

Revenues derived from transactions with a single borrower country and exceeding 10 percent of the Fund's revenue for one country amounted to UA 0.26 million for the year ended 31 December 2019 (2018: UA 0.15 million).

## Note M – Approval of Financial Statements

On March 31, 2020, the Board of Directors authorized these financial statements for issue to the Board of Governors. Due to the COVID-19 Pandemic, the financial statements are expected to be approved by the Board of Governors by postal ballot.

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**Nigeria Trust Fund**

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Côte d'Ivoire

## Independent Auditor's Report on the Financial Statements

## Year ended December 31, 2019

To the Board of Governors of the African Development Bank in respect of the Nigeria Trust Fund.

### Opinion

We have audited the accompanying financial statements of the Nigeria Trust Fund which comprise the balance sheet as at December 31, 2019 and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information as set out in notes A to M.

These financial statements were approved on March 31, 2020 by the Board for transmission to the Board of Governors considering the information available at that time regarding the evolving context of the health crisis related to the COVID-19 pandemic.

In our opinion, the accompanying financial statements present fairly, in all material respects, and give a true and fair view of the assets and liabilities and of the financial position of the Fund as at December 31, 2019 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

*Audit Framework*

We conducted our audit in accordance with International Standards on Auditing (ISA). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

*Independence*

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants (IESBA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Société par actions simplifiée au capital de 2 188 160 €
Société d'Expertise Comptable inscrite au Tableau de l'Ordre de Paris Ile-de-France
Société de Commissariat aux Comptes inscrite à la Compagnie Régionale de Versailles
572 028 041 RCS Nanterre
TVA : FR 02 572 028 041

Une entité du réseau Deloitte

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*Impairment based on expected credit losses for loans classified in stages 1 and 2*

<table>
<tr><td>Risk identified</td><td>In addition to the impairment methodology for incurred credit loss (stage 3 - see key audit matter mentioned below), the IFRS 9 impairment rules related to expected credit losses require the recording of impairments calculated as follows:<br>• stage 1 representing an expected loss within 1 year from initial recognition of the financial asset;<br>• stage 2, which represents an expected loss at maturity, in the event of a significant increase in credit risk since initial recognition.<br>The estimate of expected credit losses requires the exercise of judgment, to determine in particular:<br>• the rating procedures for loans covered by this impairment model;<br>• the rules for mapping loans to their appropriate staging;<br>• criteria for the increase in credit risk;<br>• certain parameters for calculating expected credit losses, such as the probability of default (PD) and loss given default (LGD);<br>• the methodology for taking into account macroeconomic projections for both increase in credit risk and measurement of expected losses.<br>These parameters are integrated into the model used by the Fund to determine the amount of expected credit losses.<br>The accounting principles applied and the impact of those IFRS 9 impairment are detailed in notes B, D and G.<br>Thus, the impairment charge on outstanding loans classified in stages 1 and 2 amounted to UA 342 thousand for the year ended December 31, 2019 (out of a total amount of impairment charge for the year ended December 31, 2019 of UA 363 thousand).<br>Consequently, as at December 31, 2019, the accumulated impairment for expected losses on loans classified in stages 1 and 2 amounted to UA 1,245 thousand for a total impairment amount of UA 2,048 thousand.<br>Given the scope of the IFRS 9 standard, the complexity of its implementation and the importance of the accounting estimates, we considered that impairments based on expected credit losses on loans classified in stages 1 and 2 is a key audit matter for the year ended December 31, 2019.</td></tr>
<tr><td>Our response</td><td>Our work consisted mainly, with the assistance of our experts, in:<br>• analyzing the compliance of calculation and calibration methods with the IFRS 9 standards, in particular on:<br>- the loans rating process, the significant increase in credit risk criteria and the rules for mapping loans to their appropriate staging;<br>- calculation of expected losses (review of the model, calibration of PDs, LGDs, forward looking assumptions, backtesting methods, etc.);<br>• carrying out independent calculations with our own tools.<br>Finally, our audit work also included the review of the impact of expected credit losses on the financial statements as at December 31, 2019 and the review of the relevant explanatory information provided in the notes to the financial statements.</td></tr>
</table>

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*Impairment based on incurred credit risk for loans classified in stage 3*

| | |
|---|---|
| **Risk identified** | The Nigeria Trust Fund is exposed to credit and counterparty risks on loans that it grants. These risks result from the inability of its clients and counterparties to meet their financial commitments when contractually due.<br>In accordance with IFRS 9 impairment rules, the Fund records impairments to cover expected credit losses (loans classified in stages 1 and 2 - see key audit matter mentioned above) and incurred losses (loans classified in stage 3).<br>Impairment on incurred losses for outstanding loans classified in stage 3 are determined on an individual basis. These individual impairments are determined by the management based on the estimated future recoverable cash flow estimated on each of the concerned loans.<br>As indicated in notes D and G to the financial statements, the outstanding loans of the Fund amounted to UA 76,164 thousand including UA 841 thousand of outstanding loans classified in stage 3 which are impaired at UA 139 thousand as at December 31, 2019.<br>Given that the assessment of impairment requires a significant accounting estimate and use of management's judgement, we consider that the identification and evaluation of incurred credit loss on loans classified in stage 3 is a key audit matter. |
| **Our response** | As part of our audit procedures, we reviewed the control framework for identifying exposures, monitoring credit and counterparty risks, assessing non-recovery risks and determining related impairment and provisions.<br>Our work consisted of assessing the quality of the monitoring system for watchlisted and impaired loans.<br>In addition, based on a sample selected on materiality and risk criteria, we performed an independent analysis of the amounts of provisions. |

**Other information**

Management is responsible for the other information. The other information comprises the information included in the African Development Bank Group Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Fund or to cease operations.

The Audit & Finance Committee of the Board, and more generally those charged with governance, are responsible for overseeing the Fund's financial reporting process and to monitor the effectiveness of the internal control and risk management systems, as well as the internal audit, as regards the procedures relating to the preparation and processing of accounting and financial information.

The financial statements were approved by the Board for transmission to the Board of Governors.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In accordance with International Standards on Auditing (ISA), our role as external auditor does not consist in guaranteeing the viability or quality of management of the audited entity.

As part of an audit conducted in accordance with ISA, the auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;

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- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern. If the auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Paris – La Défense, March 31st 2020

The independent auditor
**Deloitte & Associés**

**Pascal COLIN**